

Example A. ABC Company, manufacturing in a full employment area, bids on a contract at \$1,000. ABC Company will incur the following costs:

Direct labor	\$200
Overhead	900

Example C. GHI Company, manufacturing in a labor surplus area, bids on a contract at \$1,000. GHI Company will incur the following costs:

Direct labor	\$230
Overhead	275
Purchase of materials from RST, which manufactures the materials in a full employment area	425

GHI Company qualifies as a labor surplus area concern.

1-801.2 *Labor surplus area* means a geographic area which at the time of award is:

- (i) an appropriate section of a State or "labor area" classified by the Secretary of Labor as a "section of concentrated unemployment or underemployment"; or
- (ii) classified by the Department of Labor as an "Area of Substantial Unemployment" (herein referred to as an area of substantial labor surplus) and listed as such by that Department in its publication "Area Trends in Employment and Unemployment"; or
- (iii) classified by the Department of Labor as an "Area of Persistent Unemployment" (herein referred to as an area of persistent labor surplus) and listed as such by that Department in its publication "Area Trends in Employment and Unemployment"; or
- (iv) not classified as in (ii) or (iii) above, but which is individually certified as an area of persistent or substantial unemployment by the Department of Labor at the request of a prospective contractor.

1-801.3 *Small business concern* is defined in 1-701.

1-802 **General Policy.** Except as provided in 1-806 with respect to depressed industries, it is the policy of the Department of Defense to aid labor surplus areas by placing contracts with labor surplus area concerns, to the extent consistent with procurement objectives and where such contracts can be awarded at prices no higher than those obtainable from other concerns, and by encouraging prime contractors to place subcontracts with concerns which will perform substantially in labor surplus areas. In carrying out this policy, to accommodate the small business policies of Section I, Part 7, preference shall be given in the following order of priority to (i) certified-eligible concerns which are also small business concerns; (ii) other certified-eligible concerns; (iii) persistent labor surplus area concerns which are also small business concerns, (iv) other persistent labor surplus area concerns, (v) substantial labor surplus area concerns which are also small business concerns, (vi) other substantial labor surplus area concerns and (vii) small business concerns which are not labor surplus area concerns. But in no case will price differentials be paid for the purpose of carrying out this policy. Heads of Procuring Activities and Heads of Field Purchasing and Contract Administration Activities are responsible for the effective implementation of the Labor Surplus Area Program within their respective activities. Responsibility for administration of the program may be assigned to small business specialists appointed pursuant to 1-704.3.